EARN, INC.

DECEMBER 31, 2017

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Earn, Inc.

Independent Auditors' Report
and Financial Statements

Independent Auditors' Report

THE BOARD OF DIRECTORS
EARN, INC.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **EARN, INC. (EARN)** which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

275 Battery Street, Suite 900
San Francisco, CA 94111
415.781.0793

60 South Market Street, Suite 200
San Jose, CA 95113
408.998.8400

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EARN as of December 31, 2017, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited EARN's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
July 17, 2018

EARN, Inc.

Statement of Financial Position

Year Ended December 31, 2017 (with comparative totals for 2016)	2017	2016
Assets		
Cash and cash equivalents	$ 2,328,705	$ 2,250,851
Receivables	438,771	280,004
Prepaid expenses	48,185	70,863
Property and equipment, net	761,985	498,158
	$ 3,577,646	$ 3,099,876
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 435,971	$ 335,185
Saver incentives payable	76,706	15,040
Deferred revenue	459,378	459,378
Total liabilities	972,055	809,603
Net Assets:		
Unrestricted:		
Board designated	890,000	820,000
Undesignated	732,824	760,314
Total unrestricted net assets	1,622,824	1,580,314
Temporarily restricted	982,767	709,959
Total net assets	2,605,591	2,290,273
	$ 3,577,646	$ 3,099,876

See accompanying notes to financial statements.

EARN, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017 (with comparative totals for 2016)

	2017			
	Unrestricted	Temporarily Restricted	Total	2016 Total
Support and Revenue:				
Contributions	$ 1,260,133	$ 2,592,756	$ 3,852,889	$ 2,761,816
Program service fees	173,264	-	173,264	211,755
Net assets released from restrictions	2,319,948	(2,319,948)	-	-
Total support and revenue	3,753,345	272,808	4,026,153	2,973,571
Expenses:				
Program services	3,013,444	-	3,013,444	1,865,235
Supporting services	349,541	-	349,541	553,060
Fundraising	347,850	-	347,850	359,252
Total expenses	3,710,835	-	3,710,835	2,777,547
Change in Net Assets	42,510	272,808	315,318	196,024
Net Assets, beginning of year	1,580,314	709,959	2,290,273	2,094,249
Net Assets, end of year	$ 1,622,824	$ 982,767	$ 2,605,591	$ 2,290,273

See accompanying notes to financial statements.

EARN, Inc.

Statement of Functional Expenses

Year Ended December 31, 2017 (with comparative totals for 2016)

	Program Services	Supporting Services	Fundraising	2017 Total	2016 Total
Personnel, payroll taxes and benefits	$ 1,094,321	$ 153,566	$ 240,363	$ 1,488,250	$ 1,297,124
Technology	218,000	-	-	218,000	107,393
Consulting and professional fees	174,060	97,135	26,632	297,827	411,270
Grant expense	748,915	-	-	748,915	370,816
Facilities	161,568	38,436	29,951	229,955	218,567
Depreciation and amortization	260,681	3,367	3,559	267,607	42,333
Web-based services	53,982	13,574	4,369	71,925	58,524
Marketing, website, and social media	81,783	3,910	5,388	91,081	35,133
Travel expenses	5,336	4,467	6,696	16,499	34,635
Events	3,357	-	10,765	14,122	30,509
Supplies and office expenses	37,173	18,488	14,171	69,832	85,070
Miscellaneous	21,248	6,329	5,956	33,533	31,222
Saver incentives	153,020	-	-	153,020	20,765
Insurance	-	10,269	-	10,269	10,186
Bad debt expense	-	-	-	-	24,000
	$ 3,013,444	$ 349,541	$ 347,850	$ 3,710,835	$ 2,777,547

See accompanying notes to financial statements.

EARN, Inc.

Statement of Cash Flows

Year Ended December 31, 2017 (with comparative totals for 2016)

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	$ 315,318	$ 196,024
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	267,607	42,333
Loss on disposal of property and equipment	-	26,868
Changes in assets and liabilities:		
Receivables	(158,767)	487,611
Prepaid expenses	22,678	(33,130)
Accounts payable and accrued expenses	100,787	72,887
Saver incentives payable	61,666	(118,503)
Funds held for others		(585,022)
Net cash provided by operating activities	609,289	89,068
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(531,435)	(526,110)
Net cash used by investing activities	(531,435)	(526,110)
Net Change in Cash and Cash Equivalents	77,854	(437,042)
Cash and Cash Equivalents, beginning of year	2,250,851	2,687,893
Cash and Cash Equivalents, end of year	$ 2,328,705	$ 2,250,851

See accompanying notes to financial statements.

Note 1 - Organization:

EARN, Inc. (EARN), is a nonprofit organization incorporated in the State of California in December 2001. EARN provides low-income adults and families with tools to build wealth, achieve financial goals, and develop a habit of saving. EARN provides its services nationwide through an innovative technology-based platform.

EARN's programs are funded primarily through contributions.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

b. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

c. Description of Net Assets

EARN reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor - imposed stipulations. As of December 31, 2017 and 2016, the Board has designated $890,000 and $820,000, respectively, of these net assets for operating reserves and future program development.

Temporarily Restricted Net Assets - the portion of net assets the use of which by the organization is limited by donor-imposed stipulations that either can be fulfilled or removed by actions of EARN or expire by passage of time.

Permanently Restricted Net Assets - the portion of net assets the use of which by EARN is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of EARN. There are no permanently restricted net assets at December 31, 2017.

d. Revenue Recognition

Contributions are recognized at their fair value when the donor makes an unconditional promise to give. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received.

Program service fees represent amounts earned by providing services to savers.

Government contracts are recognized as revenue when allowable activities or expenditures under the respective awards are substantially completed or incurred. Amounts received in advance are recorded as deferred revenue until earned.

EARN uses the allowance method to account for uncollectible receivables based on previous experience and management's analysis of specific promises made. At December 31, 2017 and 2016, there was no allowance for uncollectible receivables deemed necessary by management.

e. Cash and Cash Equivalents

Cash and cash equivalents consists primarily of cash and money market funds. EARN considers all highly liquid investments with an intial maturity of three months or less to be cash equivalents.

f. Property and Equipment

Property and equipment purchased by EARN is stated at cost. The cost of additions and major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Property and equipment are depreciated using the straight-line method over the estimated useful live. Leasehold improvements are amortized over the remaining term of the lease.

g. Income Taxes

EARN is a tax-exempt organization under the provisions of the Internal Revenue Code, Section 501(c)(3), and the California Revenue and Taxation Code, Section 23701(d). Accordingly, no provision for federal and state income taxes has been reflected in these financial statements.

Management evaluated EARN's tax positions and concluded that EARN had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

h. Functional Allocation of Expenses

The costs of providing EARN's various programs and other activities have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the estimates of employees' time and on usage of resources.

i. Comparative Information

The accompanying financial statements include certain comparative information for which the prior year information is summarized in total. In particular, prior year information is not disclosed by net asset class on the accompanying Statement of Activities and Changes in net Assets. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United Statements of America. Accordingly, such information should be read in conjunction with EARN's financial statements for the year ended December 31, 2016, from which the summarized information is derived.

j. New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued an update related to accounting for leases. As part of the update, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The update is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. EARN is currently evaluating the impact on this guidance.

In August 2016, the FASB issued an update related to the presentation of financial statements of not-for-profit entities. The amendments make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments are effective for fiscal years beginning after December 15, 2017 and early application is permitted. EARN is currently evaluating the impact on this guidance.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations (NFPs). The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards.

It provides a framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction.

The new ASU does not apply to transfers of assets from governments to businesses.

k. Reclassifications

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on the change in net assets as previously reported.

l. Subsequent Events

Management has evaluated subsequent events from December 31, 2017 through July 17, 2018, the date these financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.

Note 3 - Receivables:

Receivables as of December 31 are summarized as follows:

	2017	2016
Grants and contributions receivable	$ 311,929	$ 223,082
Other accounts receivable	126,842	56,922
	$ 438,771	$ 280,004

The majority of these receivables are expected to be collected within one year.

Note 4 - Property and Equipment:

Property and equipment consist of the following at December 31:

		2017		2016
Computer equipment	$	29,806	$	18,373
Technology platform		1,039,125		519,125
Office equipment		2,993		2,993
		1,071,924		540,491
Less: accumulated depreciation and amortization		(309,939)		(42,333)
	$	761,985	$	498,158

Depreciation and amortization expense amounted to $267,607 and $42,333 for the years ended December 31, 2017 and 2016, respectively.

Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at December 31:

		2017		2016
Time restrictions	$	200,000	$	77,000
Purpose restrictions - financial services and operations		782,767		632,959
	$	982,767	$	709,959

Net assets were released from restrictions by incurring expenditures satisfying the restricted purposes, or by occurrences of other events specified by donors, as follows:

		2017		2016
Saver incentives	$	55,843	$	6,884
Financial services and operations		362,000		332,318
Time restrictions		1,902,104		510,000
	$	2,319,948	$	849,203

Note 6 - Commitments and Contingencies:

Commitments to Match Saver's Deposits

At December 31, 2017 and 2016, EARN had commitments of approximately $76,706 and $15,040, respectively, to provide incentives to savers who are in the process of saving but have not yet met program requirements.

Lease Commitments

EARN leases office space and equipment under non-cancelable operating leases expiring through March 1, 2022. Future minimum annual lease payments approximate the following:

At December 31,	
2018	$ 225,000
2019	231,000
2020	238,000
2021	245,000
2022	42,000
	$ 981,000

Rent expense for the years ended December 31, 2017 and 2016 were $219,853 and $187,448, respectively.

Note 7 - Retirement Plan:

All full-time employees are eligible to participate in a qualified 401(k) retirement plan (the "Plan"). Employees are eligible to contribute to the Plan on their dates of hire. EARN's contributions, which cover employees who complete three months of service, are discretionary. Contributions are fully vested at all times. EARN contributed $57,431 and $47,752 on behalf of employees participating in the plan for the years ended December 31, 2017 and 2016, respectively.

Note 8 - Concentration of Risk:

Financial instruments which subject EARN to concentrations of credit risk consist principally of cash deposits, grants and donations receivable.

EARN has maintained cash deposits with financial institutions in operation and money market accounts in excess of federally insured limits.

Receivables consist of unsecured amounts due from individuals and foundations.